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Beijing last year began to reimpose central control over the foreign trade sector, which had been progressively liberalized as part of China's economic reform program. The reassertion of the foreign trade ministry's authority is apparently in response to the growing trade deficit. Overall, however, trade policy will be unchanged. 25X1

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19 **Israel: Limited Prospects for Tax Reform** 25X1

The Israeli economy has responded vigorously to the austerity measures imposed by the National Unity government last July. However, the government must address other key economic issues in the coming months—such as tax reform and reducing the government budget—in order to sustain economic growth and stability. 25X1

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International Economic & Energy Weekly [redacted] 25X1

9 May 1986

Perspective

Mexican Debt Negotiations: A Softer Approach To Meet New Funding Needs [redacted] 25X1

Faced with growing foreign financial needs as a result of the continued weakness of world oil prices, Mexico City appears to be backing off from its tough stance on debt negotiations. Confrontational tactics with creditors in February did not work, [redacted] 25X1 25X1 25X1 Mexico City is unlikely to demand large concessions on interest payments. Drawn-out negotiations with the IMF and international banks, however, would probably lead Mexico to suspend interest payments if oil prices do not rebound. [redacted] 25X1

[redacted]

The economic cabinet appears to be in accord on the amount of new money needed but has not yet agreed on the level or type of interest payment concessions the government should try to exact from international bankers. Most officials believe, however, that concessions from creditors are needed to convince Mexicans that the President is forcing international bankers to shoulder some of the burden. [redacted] 25X1 25X1

[redacted] Mexican officials expect to reach a quick agreement with the IMF, which would pave the way for a new round of meetings with creditors. Mexico's budget may not be as significant a stumblingblock as in previous negotiations. The government's recent announcement that it will shave public spending by $1 billion—and its recent actions to curb domestic credit, allow the peso to depreciate, and increase foreign exchange reserves in the face of falling petroleum prices—may have brought the two sides closer to an agreement. [redacted] 25X1 25X1

Major commercial lenders may ease their hardline positions of February and March [redacted] They probably are convinced that the continuing fall in oil prices will soon leave Mexico no choice but to suspend debt payments. [redacted] the bankers may also be more willing to allow the Mexicans some leeway in implementing economic reforms and may reconsider their earlier refusal to offer Mexico interest payment concessions. Even though foreign creditors may be more 25X1 25X1 lenient in pressing for economic reforms, they almost certainly will require more proof that Mexico is serious about making changes before disbursing new loans to the government. [redacted] 25X1

Some bankers will balk at the request for an additional $1 billion in new loans, arguing that petroleum prices probably will rise later this year. If average oil prices remain near $10 per barrel, however, Mexico's minimum new financing needs for 1986 are likely to rise to at least $8 billion. [redacted] 25X1

[redacted] 25X1

Latin American Economies: Rocky Road Ahead

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Economic growth in the major Latin American economies last year was lackluster, inflation remained high, and living standards stayed depressed. With most economies straining to meet the large debt servicing burden, we foresee another year of economic stagnation. We are already seeing signs that economic conditions are creating tougher political and popular opposition to current financial policies and reforms envisioned in the Baker Plan. Thus most Latin American countries will continue to press Washington for political solutions to the debt problem and bargain with creditors for easier repayment terms to foster stronger economic growth.

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Latin America: GDP Growth, 1982-86

Percent

	1982	1983	1984	1985	1986 [a]
Latin America	**−1.5**	**−3.1**	**3.4**	**3.3**	**0.2**
Latin America (excluding Brazil)	−2.7	−3.0	2.8	0.7	−1.5
Argentina	−6.3	3.0	2.0	−4.4	NEGL
Bolivia	−6.6	−8.6	−3.7	−2.5	NEGL
Brazil	0.9	−3.2	4.5	8.3	3.5
Chile	−13.1	−0.5	6.2	2.4	2.2
Colombia	1.0	1.2	3.6	2.0	2.0
Ecuador	1.1	−1.6	4.6	3.8	−4.0
Mexico	NEGL	−5.2	3.7	2.7	−3.5
Peru	−0.2	−12.0	4.4	1.5	1.5
Uruguay	−9.4	−5.0	−1.8	NEGL	1.5
Venezuela	0.7	− 5.6	−1.1	NEGL	−2.0

[a] Projected.

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A Disappointing Performance

According to preliminary data, Latin American economies averaged 3.3-percent growth in 1985, down from the 1984 pace. Only Brazil—which accounts for one-third of the region's output—enjoyed strong economic growth, expanding faster than any other country in the Free World at 8.3 percent. Among other key Latin American debtors:

- ***Argentine*** GDP fell 4.4 percent as the government imposed austerity measures to break hyperinflation.
- In ***Venezuela,*** delays in implementing public spending programs and stagnant private investment—exacerbated by sagging oil revenues—kept growth depressed in 1985 for the seventh consecutive year.
- ***Mexican*** Government efforts to reflate the economy before the 1985 state elections helped the economy grow by 2.7 percent and joblessness to post a slight decline.

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Inflation generally remained high and eroded purchasing power. Argentina and Bolivia adopted programs to halt hyperinflation, which peaked during the year at annual rates of about 1,000 percent and 23,500 percent, respectively. December 1985 data show that Argentine inflation had cooled to a 46-percent annual rate, but Bolivian prices were still escalating at a dangerous 540 percent. Official statistics indicate Brazil experienced its third year of price increases in the 200-percent range, and Peruvian President Garcia's stimulative economic policies pushed prices up by nearly 160 percent. Tighter fiscal policies lowered inflation to less than 10 percent in Venezuela, the only major country in the region with single-digit price increases.

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Latin America:
Consumer Price Inflation, 1981-85 [a]

Percent

	1981	1982	1983	1984	1985
Latin America	**58**	**85**	**131**	**185**	**316**
Latin America (excluding Bolivia)	58	81	128	152	145
Argentina	131	209	434	688	385
Bolivia	25	296	328	2,177	8,170
Brazil	91	98	179	203	248
Chile	10	21	24	23	26
Colombia	28	24	16	18	24
Ecuador	18	24	52	25	24
Mexico	29	99	81	59	64
Peru	73	73	125	112	158
Uruguay	29	20	52	66	83
Venezuela	11	8	7	14	9

[a] December over December.

Latin America:
Interest Payments as a Share of Exports of Goods and Services, 1981-85

Percent

	1981	1982	1983	1984	1985
Latin America	**28**	**40**	**36**	**36**	**36**
Argentina	36	54	58	59	54
Bolivia	32	44	44	63	60
Brazil	40	57	42	38	40
Chile	39	50	39	50	46
Colombia	22	26	26	24	23
Ecuador	24	30	27	28	24
Mexico	29	46	39	40	37
Peru	24	25	30	34	34
Uruguay	13	22	25	34	36
Venezuela	13	21	22	18	22

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Taken together, Latin American living standards remained depressed. Government statistics indicate that per capita income throughout the region was still below the peaks recorded in the late 1970s. Persistent high inflation caused real wages to fall in 1985 in every major country except Brazil, where they rose 12 percent. Real wages plunged 20 percent in Peru and 10 percent in Argentina last year—the most severe declines—and 8 percent in Mexico. Moreover, stagnant economic growth resulted in rising unemployment in several countries. In Argentina, urban unemployment rose 2 percentage points to 6.6 percent, while Colombian urban joblessness averaged 14.2 percent, up from 13.5 percent in 1984.

An Early Look Ahead

On the basis of projections from various econometric forecasting services, we believe most Latin American economies face another year of lackluster performance. Although some Latin economies will benefit from the oil price drop—notably Brazil and Chile—and all will receive a boost from the pickup in OECD growth and lower interest rates, the continuation of austerity programs will hold recovery in check. For example, we believe President Sarney's recently imposed anti-inflation program and the effects of the drought will more than halve Brazilian GDP growth, while the drop in oil prices will require new retrenchment in Mexico, Venezuela, and Ecuador. At this juncture, Argentina and Bolivia are holding to tough anti-inflation programs. Chile, Colombia, and Uruguay are pursuing fiscal and economic adjustment policies needed to make significant progress against inflation.

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Debt servicing requirements and the persisting problem of capital flight will also limit the region's growth potential. Capital will continue to flow out of Latin America in 1986, albeit at a slower pace than last year. According to UN data, net flows of profits, interest, and principal totaling $30.4 billion left the region in 1985, up 18 percent from 1984, as commercial lenders became more cautious about new financing. Moreover, net interest payments as a share of exports of goods and services increased for most Latin American countries, trimming import capacity and spurring calls for new approaches to the debt problem. Although the recent decline in interest rates should reduce debt service by $11 billion, [redacted] the interest burden will remain high. [redacted]

Because of the decline in prices for oil and primary commodities, we foresee little prospect for export windfalls that will boost economic recovery. Only coffee prices are likely to rise strongly this year. Latin American economies continue to rely heavily on commodity exports, which are unlikely to rise significantly in price in 1986, according to most economists. Although only 45 percent of Brazilian exports are primary products, such goods account for the bulk of Chilean and Colombian foreign sales (65 percent), Argentine and Mexican exports (80 percent), and Peruvian and Venezuelan shipments (90 percent). [redacted]

Political events and trends in individual countries also threaten economic prospects by undermining investor confidence and disrupting plans. In Chile, especially, several years of sustained terrorist activities and the specter of a Philippine-like political upheaval may dampen investment and slow growth. Politically motivated shifts in economic policies such as those of Mexico and Peru have also heightened perceptions of risk and will continue to discourage investment and promote capital flight. Even transitory events such as the insurgent attacks on the Palace of Justice in Colombia and the recent mutiny of General Vargas in Ecuador serve to lessen investor confidence and distract the affected governments from their economic priorities. [redacted]

The Fallout

Governments throughout Latin America almost certainly will remain under popular pressure this year to back away from austerity, which officials and public figures increasingly equate with servicing foreign loans. Earlier this year, Fidel Velazquez, head of the powerful Mexican Confederation of Workers, asserted that present debt arrangements impose an unbearable burden that "cannot last forever," one indication of the growing political debate within the country over suspending payments on the debt. Moreover, Argentine unions successfully staged a one-day general strike in January to protest high debt payments, and the Peronist opposition to President Alfonsin is endorsing more confrontational policies on the debt. In a January interview on Brazilian television, Finance Minister Funaro questioned the willingness of the region's leaders to pay foreign banks while per capita incomes decline, inadequate social security systems fall apart, and the economic infrastructure crumbles. [redacted]

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Despite growing internal opposition to continuing debt service, few Latin American governments are likely to advocate radical collective or unilateral moves to ease the debt burden. Neither Castro's call for a debt moratorium nor Peruvian President Garcia's plan to limit debt service to 10 percent of export earnings has attracted support to date, and both countries would risk further isolation by continuing to push their schemes. Statements by leftwing opposition groups throughout the region favoring the repudiation of at least part of the debt have garnered virtually no popular support and have been opposed by every government in the region. [redacted]

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As 1986 wears on, however, individual governments are likely to use growing domestic support for tougher stances on debt to try to extract concessions from creditors. [redacted] We believe that the Mexicans and other debtors that face new financial negotiations this year will also continue to look to Washington for political solutions to their debt problems. As a result, we believe Latin American governments—individually and under the aegis of the Cartagena Group—will press for implementation of the Baker Plan and lower interest rates, as they did at the Cartagena Group meeting in February. [redacted]

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Chirac's Economic Policies: Moving Cautiously With an Aura of Haste 25X1

The recent favorable economic news in France—declining inflation and higher growth, due largely to reduced oil prices and the weakening dollar—improves Prime Minister Chirac's chances of implementing the right's program and convincing the French people that he can do better than the Socialists. Chirac's strategy to date appears to focus on two goals—denationalization and reducing unemployment. Although the new measures announced so far have been designed to convey the impression that the right is moving forcefully, we believe Chirac's program basically extends the Socialist's pragmatic and market-oriented policies adopted after their initial, more traditional leftist approach.

One indicator is the appointment of Edouard Balladur, Chirac's top political strategist, as economics "Czar." As Minister of the Economy, Finances, and Privatization, Balladur will oversee not only the traditional areas of monetary and fiscal policy, but also the politically sensitive issue of denationalization. Balladur's pragmatic, cautious approach and concern for Chirac's public image are likely to have a moderating influence on economic policy. We believe that under his guidance the government will be less likely to adopt some of the more far-reaching—and risky—economic reforms outlined in the right's campaign platform.

Privatization

The government is pressing ahead with its much-ballyhooed program of denationalization, but we believe that Socialist delaying tactics and market constraints will force the government to move slowly. Chirac initially sought to privatize by decree, but President Mitterrand, whose signature is necessary before decrees take effect, announced in early April that he would not permit the use of decrees to privatize firms nationalized before 1982. The President also said that he will oppose a cutrate selloff of French industry and will only sign decrees that give the state the same generous terms the Socialists gave shareholders when they nationalized firms in 1981-82. Finally, Mitterrand extended his "no signature" warning to any privatization decrees that threaten the existing rights of public-sector workers. 25X1

Chirac is pressing ahead but has adopted a conciliatory tone by signaling his willingness to send contentious denationalization measures to the National Assembly—where the right has only a razor-thin majority—as regular bills. In a speech before the National Assembly in mid-April, Chirac outlined his plans to sell off a wide range of national- 25X1
ized firms, worth $21-28 billion, over the next five years. Although details of the program are skimpy, Chirac is unlikely to opt for a simple, wholesale selloff of public holdings. 25X1

The total value of French equities is now only about $70 billion, and massive government sales could depress and destabilize what has otherwise been a bull market. Instead, the government is likely to convert some of the many types of nonvoting equities outstanding into voting shares, thus transferring the control of companies into private hands. Alternatively, it may gradually expand stock offerings to dilute government holdings. In any case, the 25X1
government is likely to retain substantial holdings in many companies. The privatization program is also likely to include incentives for employees to purchase shares and a limit on total foreign holdings—probably on the order of 25 percent—to blunt Socialist charges of selling control of the economy to foreigners. According to press reports, Chirac's advisers are privately expressing confidence that the first firms could be ready for launching by autumn, although most financial experts are looking forward to early next year.

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Denationalization Candidates

The government's privatization program includes:

- *The 36 banks, five major industrial groups (Thomson, Pechiney, Saint Gobain, Rhone Poulenc, CGE), and two financial holding companies (Suez and Paribas) nationalized by the Socialists in 1981-82.*

- *The aerospace and armaments firms Matra and Dassault, which the state also took control of under the Socialists.*

- *The three large banks (Banque Nationale de Paris, Societe Generale, and Credit Lyonnais) and three large insurance firms (UAP, GAN, and AGF) nationalized after World War II.*

- *The Havas advertising group and the oil giant Elf Aquitaine, France's largest company, also nationalized after the war.*

Notably absent from the government's privatization list are the automaker Renault and steel manufacturers Sacilor and Usinor, the three state-owned heavy industrial firms that perennially lose money.

Budget Policy and Measures To Boost Employment

The conservatives' full fiscal program—which promises tax cuts, further spending reductions, and a reexamination of the social security system—will be introduced in the fall when the government announces the 1987 budget. In mid-April, however, Chirac announced a supplementary 1986 budget aimed at bringing government spending into line, gradually introducing new priorities, and correcting what he charged were unrealistic spending projections underpinning the Socialists' 1986 budget. The supplementary budget frees up some $3.2 billion, largely through cutting expenditures of about $1.4 billion and selling—under existing legislation—$1.1 billion worth of assets of state-owned firms. State-sponsored research, the area hardest hit, is cut by over $200 million, or nearly 4 percent of the government's total civilian research budget. The additional revenue to be raised is to be used to boost spending by almost $3 billion, including about $1.1 billion in additional subsidies for Renault, Sacilor, and Usinor, and nearly $600 million for a youth employment program. Finally, in a largely political gesture, the supplementary budget legislation provides for the elimination next year of the much-maligned wealth tax imposed by the Socialists. 25X1

The government's next step in dealing with unemployment will probably be legislation to give more flexibility to the labor market. Chirac has already sought power to issue decrees permitting more part-time and temporary employment, and cutting mandatory social security contributions to encourage firms to hire more young employees. Chirac also will probably seek legislation making layoffs easier. 25X1

Price and Exchange Controls and Other Financial Measures

In mid-April, the government fulfilled a campaign promise to ease foreign exchange controls, cautiously extending the liberalization begun by the Socialists. French companies are now allowed to buy forward foreign exchange contracts for up to three months—previously only a limited number of firms importing essential products could purchase contracts for one month's forward cover. In addition, exporters are no longer required to convert their foreign currency earnings into francs within 15 days, but can now hold foreign currency for 90 days. The other financial reforms include restoring anonymity to gold transactions—in hopes that citizens holding gold illegally will decide to sell it for more productive investments—and declaring a tax amnesty on repatriation of capital illegally held out of the country. 25X1

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The government plans to remove price controls by decree. This process was well under way under the Socialists, however, who claim that by early this year over 85 percent of French industrial prices were decontrolled. We believe the right is likely to extend this liberalization but maintain politically popular price controls in several key areas, especially services, books, and pharmaceutical products. [redacted]

Chirac's most dramatic move in the monetary area was his initiation of the realignment in early April of the European Monetary System (EMS). Chirac probably figured that an early realignment would lay the blame for the franc devaluation on Socialist economic policies. Balladur put the best face on the realignment by stressing the salutary effect it would have on French export competitiveness and employment. In trying to neutralize its inflationary impact, Balladur also announced that Paris will try to hold money supply growth this year to 5 percent, compared with last year's figure of 7 to 8 percent. This tactic of counterbalancing policies was followed in mid-April when the Bank of France—which is less independent than the US Federal Reserve—cut its intervention rate, the key French money market rate, by one-half point, to 7.75 percent. At the same time, the bank tightened another aspect of credit policy by increasing the amount of reserves commercial banks are required to deposit with the central bank. [redacted]

Implications for International Economic Policy

Thus far, Mitterrand and Chirac appear largely to agree on international economic issues. Right and left in France share a general consensus on most international economic issues, especially the need for more concerted international action to stabilize exchange rates. Both the Socialists and the right, moreover, are dogged champions of French interests in international trade. Thus, while the conservatives generally favor economic liberalization, we believe that the government will continue to adopt protectionist measures when they appear necessary for safeguarding French markets. [redacted]

The United States is likely to find the new French Government a tougher adversary in one trade area: agriculture. Chirac made the plight of French farmers an important theme in his election campaign. He attacked the agricultural policy of the Socialists, charging that it had sacrificed French farm interests by accepting reform of the European Community's Common Agricultural Policy. One of Chirac's campaign promises was to raise farm incomes, through increased export subsidies if necessary. Chirac almost certainly intends to protect the EC's agricultural policy from any outside attacks, and last year he told US diplomats that he was opposed to entering into a new round of multilateral trade negotiations unless the United States and the EC settled the agricultural issue ahead of time. Chirac has apparently decided to stick to his tough agricultural line now that he is in office and has named Francois Guillaume, head of the largest farmers' union and one of the most militant champions of French farmers, Minister of Agriculture. Soon after taking office Guillaume said that the EC must be prepared to enter into a trade war with the United States if it is necessary to protect Europe's agricultural markets. [redacted]

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From a US perspective, one of the most promising aspects is that the right may be more amenable than past French governments to opening some markets to US firms. This may be evident first in telecommunications, where some US companies have already begun probing the government to see if new opportunities are emerging. In a mid-April meeting with US officials, Gerard Longuet, the new Post, Telegraph, and Telephone Minister, spoke of his "dedication" to the liberalization of French telecommunications markets, although he acknowledged the difficulties the government will face in this complex area. The new government's desire to liberate the French economy by reducing public ownership, cutting government subsidies, and lifting administrative controls will give more play to market forces, although the French tradition of heavy state economic intervention will die slowly. [redacted]

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Italian Telecommunications: Limited Deregulation of a Protected Industry

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Rome is seeking to revitalize the relatively small and uncompetitive telecommunications industry in Italy. A major feature of the plan is encouragement of joint ventures between foreign and Italian firms that give Italian companies access to new markets and more advanced technology. Although some deregulation and privatization of the largely government-owned industry is under way, Rome is reluctant to open its domestic telecommunications market to worldwide competition—less than 13 percent of Italy's telecommunication needs are imported. Rome favors a more open EC market but is unlikely to pursue wholesale deregulation that would let in US and Japanese competition.

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State of the Industry

Italy's telecommunications industry lags behind those of other industrialized nations primarily because of bureaucratic mismanagement dating from the 1970s. In 1981, the government began taking steps to revitalize the industry:

- The state-owned telephone monopoly, SIP, has been allowed to raise its rates periodically, and has used the added revenues quickly to upgrade its existing network and introduce a new range of data transmission services.

- Italtel, Italy's state-owned equipment manufacturer, has revamped itself and joined a consortium with another Italian firm, Telettra, and with GTE to develop a second-generation digital exchange system that is now being installed across the country.

- The Ministry of Post and Telecommunication (PTT) has proposed transferring much of the decisionmaking power from the various ministries to the companies directly involved. A law implementing these proposals may be passed this summer.

Increased equipment orders from SIP, along with aggressive management efforts to modernize production methods and reduce redundant labor have improved Italtel's profitability considerably.

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Although these efforts have helped, the Italian telecommunications industry remains small compared with industries in other West European countries, the United States, and Japan. Domestic production in 1984 was valued at $2.3 billion—about half the level of the French and West German industries. Despite increased outlays for new equipment—$1.8 billion in 1984-85 alone—investment remains much smaller than in the other West European countries. Only 15 percent of the industry's total output was exported in 1984—most of it to Latin America, the Middle East, and North Africa.

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Future Prospects Brighten

Further expansion of the domestic market is likely as a result of SIP's efforts to provide new and better services and modernize the telecommunications system—many exchanges are still electromechanical. Rome has planned one of the fastest rates of conversion to digital switching of any country in the world, and the US Commerce Department estimates that the Italian telecommunications industry will grow by 8 percent annually for the next five years. New services will also boost the demand for equipment. A new packet switching network for data transmission, Italpac, is likely to be completed this year, creating further opportunities for value-added networks [1] for both domestic and foreign

[1] Value-added networks are comparable to enhanced computer networks in the United States, and include such services as credit checks, stock transactions, or any communications in which the receiver can "add value" to the information received from a computer.

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Major Firms in the Italian Telecommunications Industry

State-owned through the IRI/STET Group

***ASST**—Aziendo de Stato per i Servizi Telfonici—state-owned domestic long-distance telephone company; also provides connections with other European and Mediterranean countries.*

***SIP**—Societa Italiana per L'Esercizio Telefonico—handles most of Italy's internal telephone traffic, all local calls, and some trunk services; manages contacts with telephone subscribers.*

***Italcable**—provides international telephone and telex services not handled by ASST (that is, non-European or -Mediterranean).*

***Italtel**—manufactures telecommunications equipment including switching equipment and telephones.*

***Selenia Elsag Group**—manufactures telecommunications equipment; Selenia Spazio is involved in satellite and earth station construction.*

***Sirti**—Societa Italiana Reti Telefoniche Interurbane—installs and maintains telecommunications systems; has installed 80 percent of Italy's long-distance communications equipment.*

Private Sector

***Telettra**—a Fiat subsidiary that manufactures telecommunications equipment.*

***Olivetti**—25 percent owned by AT&T; primarily involved in informatics but increasingly competitive in the telecommunications industry.*

***Foreign subsidiaries in Italy**—include ITT, GTE, and Ericsson (Sweden).*

[redacted]

firms. By 1990, a new Integrated Services Digital Network will provide services such as telex data networks, teletex, electronic mail, and closed-user group facilities. Other services in the experimental stage include video conferencing, telemedicine, and facsimile transmission. [redacted] 25X1

Some progress is being made on deregulation. The reform bill wending its way through Parliament would reduce PTT's authority over day-to-day organization and management, placing SIP in charge of domestic services and giving Italcable control over international services. Although PTT still would be involved in policy planning and supervision, we believe the reform would reduce the cumbersome bureaucracy and create a more concentrated and efficient telecommunications system.
[redacted] 25X1

A key feature of Rome's efforts to revitalize the industry is the encouragement of joint ventures between Italian telecommunications companies and foreign firms. The principal goal is to gain access to new markets and acquire new technologies. Rome welcomed AT&T's acquisition of 25 percent of Olivetti in 1983 in part because the purchase improved the latter's ability to export to the huge US market. Italtel and Telettra have formed a successful joint venture with GTE. The group plans to increase its exports from the current 6 percent of total production to 25 percent by 1990 through joint ventures with foreign firms. Italian companies also are vigorously pursuing increased cooperation with major West European firms; agreements have been signed recently with CIT-Alcatel (France), Siemens (West Germany), and Plessey (United Kingdom) to develop jointly a fully integrated digital switching system for international calls.
[redacted] 25X1

Little Taste for Foreign Competition

Rome appears convinced that the Italian market is too small to allow complete deregulation of its telecommunications network, and we believe the 25X1 government is not likely to agree to dismantle its state-controlled monopoly. PTT plans to reduce its ownership of SIP from 80.5 percent to 51 percent over the next three years, selling shares to the private sector and using the revenues to upgrade equipment. Because most members of Parliament support a strong state monopoly, they will monitor closely PTT's plan and may propose legislation to block the sales. Efforts to privatize other companies occasionally have been delayed by heated parliamentary debate and by ministers maneuvering to block the sales. Moreover, we expect more nationalistic members of Parliament would protest any foreign purchases of SIP stock.

Although the Italian Government says it is more receptive to deregulation of the equipment and value-added network services sectors, its restructuring plan does not call for reducing trade barriers in these fields. Government regulations effectively guarantee the Italtel/Telettra/GTE group about two-thirds of the domestic market for systems and equipment. PTT Minister Gava denies that the equipment sector is closed to competition, citing as evidence the 25- to 30-percent share of the equipment market held by US firms. US companies have obtained their market share, however, primarily through establishment of manufacturing subsidiaries in Italy or through joint ventures with Italian firms.

At present, less than 13 percent of Italy's total telecommunications needs are imported—primarily from West Germany, the United States, and Japan. The United States supplied about 11 percent of Italy's telecommunications imports in 1984. This relatively low level of US imports is partly due to import duties levied on equipment from non-EC countries—although no quotas, foreign exchange restrictions, or prior deposits on telecommunications imports are applied. Import duties on US equipment can be as high as 12 percent, with the average about 7 percent.

Despite the guaranteed market share for Italtel/Telettra/GTE, no formal "Buy Italian" policy exists. Nonetheless, PTT often gives preference to domestic manufacturers in its equipment purchasing decisions, and most of the major foreign manufacturers, therefore, have established subsidiaries in Italy. The market for value-added services is relatively new in Italy, but we suspect the government will tend to erect more barriers as the market develops. Rome fears measures that would limit Italian access to the US market, however, and may back down if faced with US threats of retaliatory measures.

Rome believes that one way of stimulating its telecommunications industry is to create an EC-wide market by promoting increased standardization of equipment. This would allow European firms to take advantage of economies of scale and enable them to compete on a firmer footing with US and Japanese firms. To this end, Rome is encouraging Italian firms to pursue joint ventures with other West European firms—such as Italtel's agreement with Siemens, CIT-Alcatel, and Plessey—because it believes such cooperation will lead automatically to the partial deregulation of the European market. For the same reasons, Italy usually cooperates with the recommendations of the European Conference of Postal and Telecommunications Authorities and adopts its equipment standards for domestic use. Although apparently willing to risk greater West European penetration of the Italian market in order to secure a broader West European market for Italian firms, Rome does not want the wholesale deregulation of the EC market that would also let in US and Japanese competition.

China's Foreign Trade: Patterns and Prospects [redacted] 25X1

Beijing last year began to reimpose central control over the foreign trade sector, which had been progressively liberalized as part of China's economic reform program. The reassertion of the authority of the Ministry of Foreign Economic Relations and Trade (MFERT) is apparently in response to the growing trade deficit, which resulted in a 25-percent drop in foreign exchange reserves between September 1984 and September 1985. Although reserves are still sufficient to cover three months' imports, traditionally conservative Chinese officials prefer at least a five-month cushion. The recentralization aims at reining in the activities of provincial and local foreign trade corporations that had led to unnecessary imports, injury to domestic industries, and revenue losses as exporters cut prices to compete for sales. Overall, however, trade policy will be unchanged. China will continue seeking new markets, particularly in the LDCs, to compensate for developed country trade barriers and the decline in oil export revenues as prices fall. Exports of higher value-added manufacturers will be stressed. Import cuts will fall most heavily on consumer goods, but capital goods imports will also be trimmed. [redacted]

One Step Back for Decentralization

Recentralization began with MFERT regaining control over the establishment of new trading organizations. China's open-door policy had given rise to a proliferation of import-export companies, many of which lacked the necessary skills for conducting trade. As a result, foreign and domestic traders alike encountered considerable confusion. Moreover, the competition among the many Chinese entities—both national and provincial—had initiated a price war, driving down the prices of China's exports and dampening foreign exchange earnings. Under new guidelines, an organization may be formed only if its business scope does not overlap existing companies and the new firm has qualified personnel. [redacted]

In another move to strengthen management over foreign trade, last spring MFERT implemented a system of licensing imports and exports. The export license list, which had been trimmed to 15 key products, was again broadened in February to 235 items covering almost every major product the country exports. Import licenses were also imposed in an effort to reduce the flow of incoming goods—many of which China could produce domestically—and conserve foreign exchange. Moreover, in the past year, Beijing announced changes in its customs regulations, increasing some tariffs to protect infant industries from imports, reducing import duties on some goods including raw materials and high-technology items, and abolishing nearly all export duties. [redacted] 25X1

Despite these measures, China posted a record $14.9 billion trade deficit last year, according to Chinese Customs statistics. [1] Imports soared more than 50 percent in 1985 as rapid industrial growth and high consumer demand led to sharply higher purchases of industrial raw materials and consumer durables. Although petroleum export revenues increased, earnings by other major exports—such as textiles and apparel—were sharply lower and, according to Chinese data, overall export earnings rose by only 6 percent. [redacted] 25X1 25X1

Trade Strategy Largely Unchanged

Despite the pullback on trade decentralization, Beijing's overall trade policy is not being overhauled. Given China's conservative financial policies, the use of foreign borrowing to finance imports remains limited. Instead, Beijing will

[1] According to CIA estimates, China posted a $6.9 billion trade deficit in 1985. Much of the discrepancy appears to reflect the inability of the decentralized trade apparatus to accurately record exports. According to our data, China's exports rose 13 percent last year, not the 6 percent claimed by Chinese Customs statistics. [redacted] 25X1

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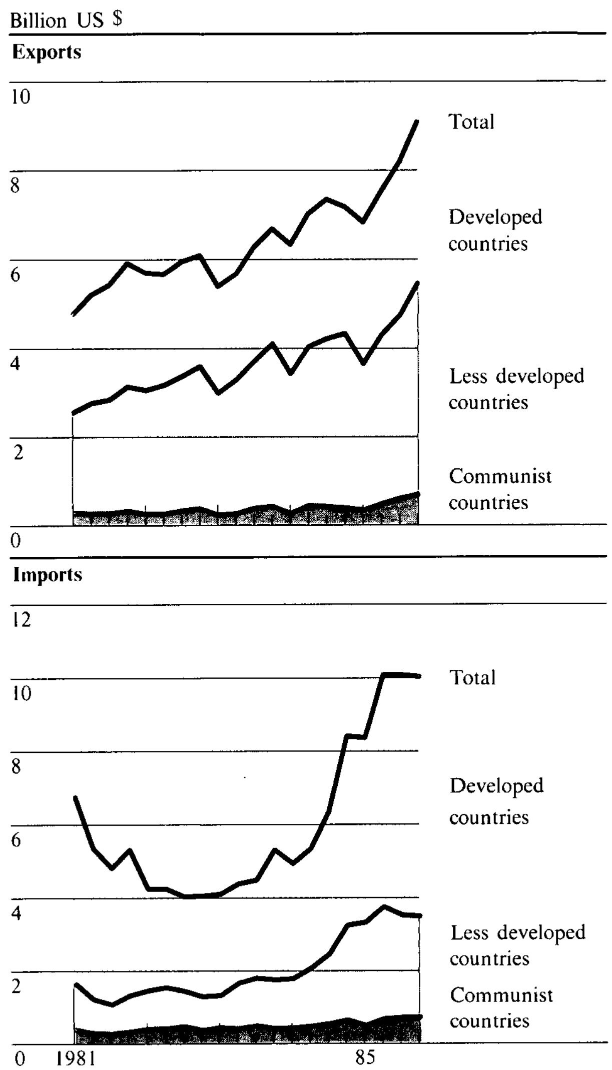
continue to seek new markets and export diversification to pay for the foreign equipment needed for modernization. Efforts to correct the trade deficit will fall most heavily on imports of consumer goods. [redacted] 25X1

Developing New Partners. While Beijing recorded only a marginal increase in exports to its major trading partners (Hong Kong, Japan, and the United States), its exports to the Soviet Union, Latin America, and Eastern Europe showed substantial increases. We estimate that exports to the Soviet Union increased more than 35 percent over 1984, along with an additional 22-percent increase in goods to Eastern Europe. Exports to Mexico and Chile more than tripled in 1985, reflecting Beijing's strong interest in developing ties in Latin America. [redacted] 25X1

Nonetheless, Hong Kong continues to be China's largest export market, accounting for more than one-fifth of China's total trade. Beijing has actively pursued closer economic links to promote the territory's stability and prosperity. Moreover, China is particularly in need of a host of services that Hong Kong can provide—financial, trade, and shipping. Earlier this year Hong Kong opened an office in Beijing to further promote trade—its first official representation in China—with a second office scheduled to open in Shanghai before yearend. [redacted] 25X1

Moving Into New Commodities. Although grain output fell 7 percent, China became a net exporter of grain last year, almost tripling grain export levels to more than 9 million metric tons. Imports—15 percent of which were from the United States—totaled about 5.4 million tons. Corn constituted nearly half of China's grain exports with the balance in soybeans and rice. Sales to Hong Kong, the Soviet Union, West Germany, the Philippines, and Singapore account for more than half of China's grain sales. [redacted] 25X1

China: Exports and Imports, by Area, 1981-85



[redacted] 25X1

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Export Promotion, Chinese-Style

In recent months, Beijing has begun experimenting with various forms of export promotion to boost sagging exports. According to the US Consulate in Hong Kong, it remains unclear whether this export incentive program, coupled with a limited price support system, will effectively increase exports in the coming years. Although in some cases Beijing remains willing to allow selective "price supports" to state-run enterprises, it apparently prefers to use factory incentives instead of direct subsidies to stimulate greater export efforts. These include tax reductions, bonuses, allowing enterprises to keep a larger share of foreign exchange earnings from exports, and special access to raw materials and energy for export-oriented enterprises. In some instances, local officials have raised worker wage levels in exporting factories. Workers in three of Shenyang Province's largest exporting factories have received bonuses to reward high export performance. Another innovative twist for providing export incentives is reported in Guangzhou Province, where manufacturers receive rebates in domestic currency on every US dollar earned through exporting and an additional rebate for US dollar earnings over export quota.

China's search for new export goods will intensify this year as it feels the effects of lower oil prices. Revenues from exports of petroleum and petroleum products jumped 25 percent in 1985. For the past six years, these exports have accounted for roughly one-fifth of total export earnings, amounting to nearly $6.4 billion in 1985. If Beijing carries out its promise to hold oil export volume at the 1985 level in support of OPEC's attempts to shore up oil prices, China could lose at least $1.6 billion in foreign exchange earnings this year.[2]

For the next few years, we expect manufactured goods to provide the largest source of export growth as the Chinese substitute sales of processed goods for raw materials wherever possible. In addition to the higher value-added earnings that processed goods command, this strategy is also directed toward compensating for the increase in volume quotas developed countries impose on imports from China. The Chinese are also attempting to increase their gains from trade by moving into exports that reflect their comparative advantage in labor-intensive manufactured goods. For example, earlier this year Beijing announced its plan to export $1.5 billion worth of carpets in the next five years and established the China Carpet Import and Export Association to coordinate international sales. 25X1

Implications

China has little chance of turning to alternative commodities to compensate for the expected drop in oil export revenues—attempts over the past several years to diversify exports have met with limited success. Hence Beijing will probably focus on slowing runaway imports. We believe much of the slowdown in import growth will be effected through stricter foreign exchange controls, including an additional curtailment of the purchase authority previously granted to local traders under decentralization. Beijing will also continue other restrictive measures such as import licensing and selective tariff increases. According to Hong Kong press reports, Beijing's attempts to conserve foreign exchange are driving some small, marginal Chinese import-export companies out of business. These same sources caution that, because of foreign exchange shortages, China may also renege on negotiated contracts—similiar to the cancellations of grain and synthetic fiber contracts that occurred in 1983. 25X1

We believe that the tightening of import restraints will change the composition of China's purchases over the next year. Restrictions are already in place on imports of commodities that China can produce domestically, including such consumer durables as color televisions, refrigerators, radios, and motor vehicles. But Beijing will also need to cut deeper

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[2] This assumes that oil prices will average $18 per barrel in 1986 and that petroleum products—nearly 20 percent of China's oil-related export volume—will earn approximately 25 percent more per barrel than crude.

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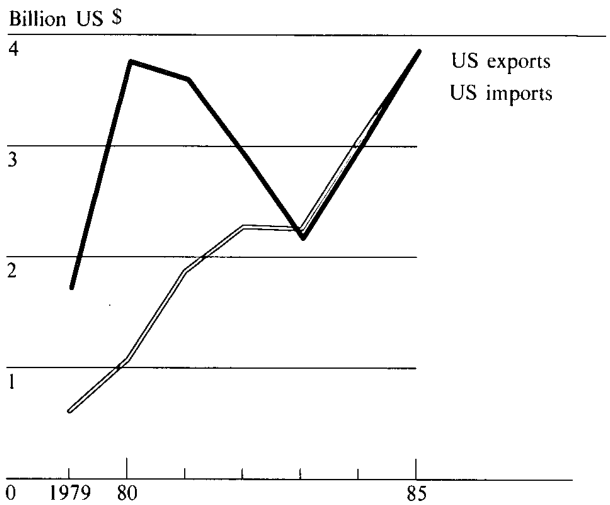
US-China Trade, 1979-85



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into its import shopping list. A number of projects requiring foreign capital equipment have already been postponed or canceled. 25X1

We believe, however, that Beijing will continue to encounter problems slowing investment and therefore will achieve only moderate success in reducing industrial and capital equipment purchases. Consequently, the effect on US exports to China, more than one-third of which are machinery and transport equipment, will be marginal. Moreover, demand for raw materials and chemicals—which represent an additional 25 percent of US exports to China—should also be sustained. 25X1

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Israel: Limited Prospects for Tax Reform

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The Israeli economy has responded vigorously to the austerity measures imposed by the National Unity government last July. Inflation has declined to 1.5 percent per month compared with 2.1 percent a year ago, and the exchange rate has remained virtually stable since last July. However, the government must address other key economic issues in the coming months—such as tax reform and reducing the government budget—in order to sustain economic growth and stability. Easing the tax burden would spur investment and aid productivity while encouraging the government to implement real spending cuts. Tax avoidance and the economic inefficiencies associated with the current tax system also could be reduced by simplifying the overall tax structure.

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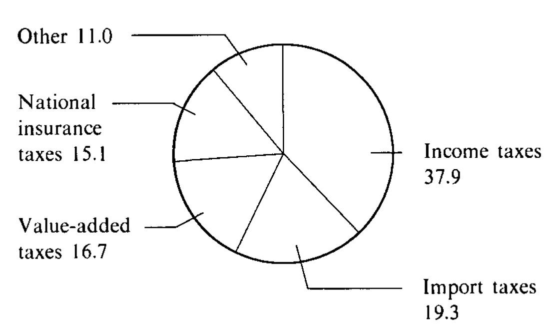
Israel: Tax Revenue by Source, 1985

Percent

Total: US $9.7 billion



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A Heavy Tax Burden

With government revenue equal to nearly one-half of GNP, the tax burden imposed on Israel's economy undercuts the public's willingness to work, influences the decisions to actively search for employment, and reduces productivity.

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Income taxes, which totaled about $3.7 billion last year and provided about 40 percent of government tax revenue, constitute one of the heaviest restraints on the economic system. Although their share of total income taxes decreased from 55 percent in 1984 to 41 percent last year, salaried workers continue to be hard hit. A worker who earned 85 new shekels in April 1984—the equivalent of $500—watched his monthly nominal wage rise to 700 shekels by July 1985, still about $500. Facing high marginal tax rates, however—tax bracket adjustments did not keep pace with inflation—take-home pay suffered. Self-employed individuals were somewhat better off, because the bulk of their taxes was due after the year was over—in contrast to withholding for salaried workers. At the same time, many types of unearned income are not taxed. Capital gains, for instance, are not taxed at all. Dividends and most interest income also go untaxed.

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Receipts from the value-added tax (VAT) yielded the government about $1.6 billion in 1985 or 17 percent of total tax revenue. In effect, the VAT rate—currently 15 percent—acts as a proportional sales tax on production. While the VAT remains an excellent tax revenue source—since it is relatively easy to collect and limits tax avoidance—it still imposes high costs on the economy and Israeli consumers as firms pass the tax on through higher product prices.

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Numerous other taxes have added to the Israeli taxpayer's burden:

- Israelis traveling abroad must pay a travel tax equivalent to $120.

Israel and the United States: Comparative Tax Rates, 1985 *percent* (except where noted)

	Israel	United States
Income tax rate on $10,000	50	9
Value-added tax rate	15	0 to 6 [a]
Auto purchase taxes	300 [b]	0 to 5 [a]
Property tax rate	4.8	0 to 2
Per capita import taxes or customs duties *(US $)*	445 [c]	50 to 100 [c]

[a] Local and state sales taxes
[b] Minimum additional taxes as a share of car's original price.
[c] Estimated.

[redacted]

- New car purchases saddle the normal Israeli buyer with four kinds of taxes that raise the price of a $3,000 car to about $13,000. New immigrants have a 3- to 5-year grace period to purchase a car at significantly lower taxes.

- Property taxes paid to the national government amounted to $232 million last year.

- Additional tax measures in the recently adopted national budget call for a one-time levy on the combined incomes of retired people and impose new education fees. A "one-time" levy on private automobiles imposed last year was reinstated under this year's budget. [redacted]

The Untouchables?

Given Israel's large annual trade deficit, import taxes are not likely to be reduced in the near term. By imposing taxes on imports, especially durable goods, the government has a viable policy tool through which it can directly discourage consumption and help correct the trade imbalance. Taxing imports has also provided the government with a valuable revenue source, with import tax revenues totaling about $1.9 billion in 1985. Moreover, national insurance taxes—to fund the country's welfare system—also are unlikely to be cut. These revenues totaled about $1.5 billion last year. [redacted] 25X1

What To Do

With inflation currently at manageable levels, the government has an opportunity to examine the incentive effects of tax reform on both investment and labor supply. Options include:

- Reducing average and marginal income tax rates.
- Imposing capital gains and other taxes on unearned income. 25X1
- Halting the proliferation of new taxes, such as education levies, travel tax additions, vehicle taxes, and levies on pensioners.
- Cutting other tax rates—such as those on property. [redacted] 25X1

Reducing the number of taxes and settling for broadbased taxes would also increase the efficiency of tax collection. Closing loopholes available to high-income individuals would reduce the regressive nature of Israel's tax system. [redacted] 25X1

Tax Reform Benefits

An easing of Israel's excessively high tax burden, combined with a commensurate cut in government spending, almost certainly would boost productivity through greater work effort and encourage investment growth. Real private consumption would increase. Depending on how reductions in government spending were implemented, the unemployment rate might initially increase but would ultimately decline with the expanding economy. [redacted] 25X1

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Without a corresponding cut in government spending, the economy would not perform as well. Productivity would increase in response to the tax cut, but investment would lag because the government would still be competing with the private sector for funds. Real GNP growth would probably be accompanied by higher inflation because the government would be forced to finance an even larger budget either by printing more money or by borrowing in capital markets. [redacted] 25X1

Outlook for Tax Reform

The prospects for tax reform are dim because the government failed in its efforts to achieve any real cuts in the recently adopted 1986/87 budget. Instead, the budget offers a variety of new taxes. Moreover, the two major coalition parties—Labor and Likud—are seeking to position themselves favorably with the electorate. As a result, neither party wants to be linked to the cutback in government services that tax reform would entail. [redacted] 25X1

The resignation of Finance Minister Moday further hinders tax reform efforts because his replacement, Moshe Nissim, is a low-key Likud loyalist who does not wish to rock the boat. Any comprehensive tax reform action therefore is likely to be deferred at least until October when Likud is scheduled to regain control of the prime ministry and when Likud might reappoint Moday as Finance Minister. In the interim, only piecemeal measures are likely to be adopted. [redacted] 25X1

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Briefs

Energy

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Chernobyl' Accident Slows Dutch [redacted] Nuclear Programs 25X1

West European reaction to the Chernobyl' nuclear disaster is complicating expansion plans for domestic nuclear power programs. The US Embassy in The Hague reports that a long-awaited parliamentary debate on sites for two Dutch plants—scheduled for this week—has been delayed until after the 21 May election and the formation of a new government coalition. Continuing controversy over nuclear power in the Netherlands has been heightened by the Chernobyl' incident, and it is unlikely that any new government will tackle the nuclear question for many months. [redacted] 25X1

[redacted] 25X1

Syrian-Iranian Oil Negotiations Suspended

Syria has turned down Iran's latest proposal for a new oil contract. According to the US Embassy in Damascus, Iran insisted that Syria continue paying last year's contract price of $25 per barrel—Damascus wanted a new agreement to reflect current world market prices. [redacted] 25X1 Neither nation probably wants to disrupt their alliance at this point, and Tehran probably will continue shipping some oil under a short-term agreement reached in December—although less than Damascus would like—to ensure Syrian political and military support against Iraq. Syria's scarce foreign exchange reserves make spot market purchases an unrealistic long-term option and may force Damascus to turn to Saudi Arabia or Libya for help if an arrangement with Iran is not reached soon. Assad's confidence that Syria can weather this setback is probably based on plans to boost production at Syria's Thayyem field to more than 50,000 b/d by early September. [redacted] 25X1

Austrian Dependence on Soviet Gas Could Fall

Austrian dependence on Soviet natural gas could fall from nearly three-fourths of its consumption to below 60 percent because of a new gasfield and possible purchases from Norway. Austria's national oil and gas company, OMV, plans to invest $720 million to develop a new gasfield near Vienna that is expected to produce 150 million cubic meters annually for about 30 years. OMV reportedly also is negotiating with Norway for 1 billion cubic meters of North Sea gas annually. The US Embassy in Vienna, however, doubts that agreement with Norway will be reached soon because Soviet gas is substantially cheaper. Austria's domestic gas production has been declining and now accounts for just one-fourth of annual consumption of about 5 billion cubic meters. Although the USSR supplied 98 percent of gas imports last year, Vienna is not overly concerned about its reliance on Soviet gas. Austria maintains large stockpiles and believes users could switch to coal or oil in a crisis. [redacted] 25X1

25X1

International Finance

Brazil's Impasse With Paris Club Continues

No progress was made in resolving the standoff between Brazil and its Paris Club creditors during recent negotiations, according to the US Embassy in Paris. Despite creditor threats to cut off new export guarantees, Brasilia refuses to accede to longstanding creditor demands that it must implement an IMF standby program and pay $600 million in interest arrears before its official debt will be rescheduled. Although Brazilian negotiators indicate some flexibility on the arrears, we believe the Sarney government, for both political and economic reasons, will remain steadfast in its refusal to go to the Fund. Brasilia believes its own tough economic stabilization plan, combined with its continued strong external performance, should exempt it from implementing a traditional IMF program, according to press and Embassy reporting. In addition, Finance Ministry officials told the US Embassy last month that any formal Fund agreement is politically out of the question before the mid-November congressional and gubernatorial elections, because of the widespread unpopularity of the Fund in Brazil. 25X1

Cuban Debt Repayments Postponed

Cuba has announced that it will suspend principal and interest payments for 90 days on debt owed Western banks and governments. Havana also says it needs $1 billion in additional funds over the next two years to cover a projected shortfall in hard currency earnings. In addition, Havana has asked its Western creditors to reschedule debts falling due in 1986 and 1987. Cuba's hard currency position has been deteriorating since 1982, and its hard currency income will decline by at least 25 percent this year because of falling earnings from sugar and oil. The decision to suspend payments was probably the alternative to further cuts in Western imports—Cuban officials claim that foreign reserves are down to only 10 to 20 days' import coverage. Western creditors, who have continued to reschedule Cuban debt despite Havana's failure to meet performance targets, are likely to take a much harder line in this year's negotiations. 25X1

Iraq Requests Rescheduling of Trade Debt

The US Embassy in Baghdad reports that Iraq is asking several Japanese, European, and US banks to reschedule overdue letter of credit payments for past imports. Baghdad is requesting a postponement of these payments until 1989 followed by a repayment period of three and one-half years. Total overdue letters of credit by Iraq are growing at a rate of about $300 million per month and may top $1 billion by June. Baghdad probably is seeking to defer payments until expansion of its oil pipelines through Saudi Arabia and Turkey is completed, but its terms are almost certain to meet resistance from lenders. Iraq's failure to cover short-term debt payments is rapidly reducing its access to new financing, and Baghdad will have to reach agreement with lenders to avoid a widespread cutoff of trade credit that would severely disrupt the flow of goods into Iraq. 25X1

25X1

IMF Trust Fund Developments

Reaction to the recent IMF Executive Board decision to establish a $3.1 billion Structural Adjustment Facility (SAF) has been generally favorable. The SAF is the instrument proposed by Treasury Secretary Baker to relend IMF Trust Fund repayments to the poorest developing nations—mostly African countries—who face severe balance-of-payments problems. Although a key adviser to the Ivory Coast finance minister states that some African nations believe the amounts are not sufficient to fuel new development, the Executive Director from Benin, representing much of francophone Africa, welcomed the US proposal and its emphasis on better coordination. A Cape Verde official also recently stated to US officials that the US proposal is now widely accepted throughout West Africa. Of the 34 low-income African countries eligible for assistance under the new IMF facility, the three biggest potential borrowers are: Zaire ($320 million), Zambia ($297 million), and Ghana ($225 million). 25X1

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Progress on Tanzanian IMF Accord

Tanzania and the IMF have agreed on the broad outline of an economic adjustment program that could form the basis for a standby arrangement, according to US Embassy reporting. The main elements include an agreement on the indicators to be used for fiscal management, a devaluation with a commitment to follow a flexible exchange rate policy, and increases in agricultural producer prices. In addition to an adjustment program, Tanzania must pay about $30 million in arrearages to the IMF before a standby can be arranged. The IMF has given Tanzania until 23 July to pay up and avoid being declared ineligible to use Fund resources. Tanzania could try to obtain a bridge loan from private or official sources that could be repaid from the first IMF disbursement under a standby. Party chairman Nyerere, who has consistently opposed IMF recommended reforms, which would repudiate his legacy of African socialism, may reluctantly go along because of the devastated economy, but is likely to attach conditions to water down any resulting arrangement. [redacted] 25X1

Costa Rican Financial Difficulties

Costa Rica fell into technical default on its rescheduling agreement with commercial bankers [redacted] We expect the incoming Arias administration to face continued financial shortages. It may be months before San Jose can reach final agreement with commercial banks, according to the US Embassy, because of Costa Rica's failure to meet the conditions of the creditor bank agreements. The Embassy reports, however, promising forward movement in negotiations on the SAL and a new IMF standby that may give Costa Rica some early relief. [redacted] 25X1 25X1 25X1 25X1

Global and Regional Developments

[redacted] 25X1

Italian Firms Seek Payments from Libya

Italian firms belonging to the state-owned holding company IRI are seeking compensation for nearly $1.3 billion in payments for work done in Libya. The firms fear that increased tension in the area has substantially reduced the likelihood that they will receive payments either for debts owed by Libya since 1982 or for current contracts. Under a 1984 accord, Italy agreed to accept oil in compensation for $800 million owed Italian companies, but Libya has sent only two small shipments of oil to Italy. In light of the fall in world oil prices, Rome has asked to renegotiate the oil compensation price, but Tripoli refuses to accept the world price. Italian firms apparently have little confidence in Rome's ability to extract payment from Libya and are seeking to identify Libyan assets in Italy that could be used to satisfy their claims if Tripoli defaults on the debt. Moreover, the firms believe that they will soon be forced to leave Libya and that their pullout will give Tripoli an excuse to renege on its current contracts. [redacted] 25X1

25X1

EC Agreement To Freeze Farm Prices

EC agriculture ministers agreed recently to freeze prices guaranteed to member-state farmers for the 1986/87 marketing year, which begins this summer, but the freeze affects only prices expressed in European Currency Units. They also agreed to a 3-percent tax on the price the farmer receives for his grain to pay for grain export subsidies and a 3-percent cut in the existing quota for milk production, but they put off reforms in the beef sector until later this year. The price freeze [redacted] will probably make EC overproduction worse. Because of the recent realignment of European currencies, all the member states except West Germany and the Netherlands will receive price increases ranging from 1.5 to 18 percent in national currency. The grain tax reflects a commitment to use increased export subsidies to compete with other exporters; the fall in the dollar since early last year will probably add $1.5 billion to the cost of all EC export subsidies this year. [redacted] 25X6 25X1

25X1

[redacted]

Afghan-Soviet Energy Contracts

The Afghan regime—which is plagued by chronic shortages of electricity—signed a series of contracts on 26 April for increased Soviet development of the energy sector in Afghanistan. In June 1985, the Soviet Union began supplying electricity to Afghanistan using a transmission line extending from the Soviet border to Mazar-e Sharif. The recently signed contracts call for the extension of power transmission lines into other regions of northern Afghanistan. A contract was also signed for a feasibility study for a series of hydroelectric stations on the Kabul River. Afghanistan currently generates 96 kilowatt hours of electricity per capita annually—one of the lowest averages in the world. Despite new Soviet aid, shortages of water for hydroelectric plants, shortages of Soviet-supplied fuel for gas turbines, and insurgent attacks on supply lines and generating facilities will probably continue to constrain electricity supplies. 25X1

National Developments

Developed Countries

25X1

Italy Lowers Discount Rate Again

The Bank of Italy in late April lowered its discount rate by 1 percentage point to 13 percent—the second drop this year. The drop is in response to lower inflation, reduced interest rates in other countries, and an easing of speculative pressure against the lira after the early April European Monetary System realignment. Although the nominal interest rate is now at its lowest level since 1979, the rapidly declining inflation rate has kept real interest rates high. The Treasury Minister also announced that the returns on Treasury securities will be lowered between 1 and 1.5 percentage points at the next auction, which will lessen interest payments on the government debt. Commercial banks have been slower to respond—few banks lowered their rates after the first discount rate reduction last March; only a handful plan to respond to the latest reduction but by less than the government's full percentage point drop. The commercial banks blame increased competition from mutual funds, which has lowered bank deposit growth, and a six-month credit ceiling, imposed by the government last January, for preventing them from following the Treasury's lead. [redacted] 25X1

Italian Unemployment Jumps to Record High

A large jump in Italy's unemployment rate caused primarily by a sharp increase in the number of new job seekers has prompted the government to offer incentives to companies hiring young people. The unemployment rate rose to 11.5 percent in January—up from 10.8 percent in the same period in 1985—as the labor force increased by 458,000. Italian firms must hire new employees through state-run agencies that give preferential treatment to older workers. As a consequence, over 75 percent of Italy's unemployed are below the age of 29, giving Italy one of the highest youth unemployment rates of any West European country. To correct this problem, Rome recently began to subsidize the first-year salaries of young workers hired by either public- or private-sector firms. Higher subsidies are offered to industries such as electronics and telecommunications, as well as to firms in the least developed areas of Italy. In the absence, however, of further liberalization of the labor laws—making it easier to lay off workers, for example—it is unlikely that the new subsidies will do much to lower the youth unemployment rate. [redacted] 25X1

Greek Central Bank Calls for Liberalization Measures

The Governor of Greece's Central Bank last week called for liberalization of the country's tightly controlled labor, price, banking, and taxation systems as a supplement to the government's austerity program. In the Bank's annual report, the Governor said that the stabilization measures introduced last October were not enough to correct the structural problems of the Greek economy. He advocates abolishing price and credit controls, profit ceilings, and restrictions on layoffs. In addition, he called for linking wages to productivity, recommended reforming the tax code to eliminate disincentives to investment and work, and criticized the continued state financing of the approximately 60 ailing firms taken over by Athens to preserve jobs. The Central Bank's recommendations are similar to those advocated by Greece's leading private business spokesman in late March. Such measures are needed to revive depressed private investment and improve the long-term health of the economy, but Prime Minister Papandreou opposes many of these suggestions and is unlikely to implement them. [redacted] 25X1

Less Developed Countries

Land Confiscations in Nicaragua

[redacted] the Sandinistas have confiscated 21,000 hectares of land since mid-April, including a 4,900-hectare farm owned by a government opponent. [redacted] seizing productive farms "in the public interest" is now legal under a January revision of the Land Reform Act. Speaking at a conference of independent farmers last week, Sandinista leaders warned that increased land expropriations and reduced bank credits would result if farmers did not cooperate. [redacted] 25X1 25X1 25X1

Ambitious Colombian Economic Plans

President Betancur last week approved a series of economic measures to be implemented during the last 100 days of his administration that are designed to stimulate growth and employment and reduce the budget deficit and inflation. The administration plans to open domestic interest rates to market forces—as recommended by the IMF—and enforce budget austerity and severe monetary controls. At the same time, however, Betancur—with an eye to improving the Conservative Party's chances in the presidential election set for 25 May—plans to complete 104 development projects at a cost of approximately $850 million and channel some $25 million in development credit to the private sector. His economic package, already under fire by the opposition Liberal Party, is overly ambitious, too late, and unlikely to meet its goals. We agree with the US Embassy that, although some projects will be completed and others accelerated, the next administration, which will take office in August, will probably slow many projects until it establishes new priorities. [redacted] 25X1

Foreign Exchange Pressures in Guatemala

A shortage of foreign exchange has contributed to further delays in implementation of Guatemala City's new economic stabilization program. [redacted] debt arrearages continue to grow. Guatemala lacks sufficient reserves to meet the needs of the economic program and maintain essential imports. Startup of the program may slip into June, further reducing confidence and giving critics additional opportunities to gut the package. [redacted] 25X1 25X1 25X1 25X1

Rush Libyan Grain Purchase

Concerns about a possible US blockade of Libyan ports may have prompted an upsurge in Libyan wheat imports. [redacted] 25X1 Libya depends on imports to meet over 50 percent of domestic food requirements. The regime cut food imports sharply in recent years to help conserve foreign exchange. Food imports totaled an estimated $600 million last year—including $270 million in grain—compared with $1.2 billion in 1981. Italy is Tripoli's largest supplier of foodstuffs and wheat; the United States supplied $20 million in foodstuffs last year. It is likely that the regime will increase food supplies over the next several months to ease domestic disgruntlement over food shortages and to build reserves against harsher US military actions or stronger economic sanctions. [redacted] 25X1

Status of Foreign Workers in Libya

[redacted] 25X1 So far Libyan 25X1 authorities have not restricted the movement of foreign nationals or their ability to leave the country. Moreover, at some sites US and British workers are being guarded to protect them from random violence by local hotheads. The regime probably will continue to treat foreign nationals with respect to retain their badly needed expertise. [redacted] 25X1

Congo Reeling From Falling Oil Prices

Congo, dependent upon petroleum production for 90 percent of exports and about two-thirds of government revenues, is sinking deeper into an economic crisis. The US Embassy reports that Elf Congo, the major producer and marketer of the country's crude oil, has halted all new exploration and development. It has canceled contracts with the French firm, Boscongo, leading to layoffs of 20 percent of Congolese oil service workers—Congo's oilfields were already in decline. The government was depending on new oil discoveries to help stem mounting popular opposition to austerity measures, according to the US Embassy. Moreover, President Sassou probably will be increasingly reluctant to accept unpopular IMF recommendations under a much-needed standby agreement for fear of weakening his already shaky position within the ruling party. [redacted] 25X1

Bhutto's Plans for the Pakistani Economy

People's Party leader Benazir Bhutto's campaign slogans—lower taxes, higher minimum wage, and more public-sector jobs—will put added pressure on the civilian government to address longstanding domestic problems. Her strategy is to attract farmers, laborers, urban poor, and unemployed youth with populist programs, according to the US Consulate in Lahore. To counteract Bhutto's promises, Prime Minister Junejo has announced vague plans to provide the urban poor with land, to address unemployment problems, and to increase funding for rural development. He has also called for 90 percent of all villages to be electrified by the end of the decade. Budget constraints, however, will make it difficult for the administration to implement its proposed policies. [redacted] 25X1

Effects of Philippine Budget Problems

Manila's severe budgetary difficulties are emerging as major constraints to improving the economy and countering the Communist insurgency, and efforts to trim defense spending may intensify tensions between President Aquino and the military. [redacted] Manila expects the budget deficit to reach $1.7 billion this year—the second highest ever in real terms. Available foreign funds—including the additional US aid announced last month—will finance at most 40 percent of the deficit, according to Philippine Government estimates. Japan's delay in signing the 1986 aid agreement is holding back one potential source of additional financing. The budget crisis is beginning to take its toll. The military budget is being slashed, and reduced benefits and continued low pay are eroding morale within the armed forces. The US Embassy reports that there is a critical shortage of money for economic recovery projects in some parts of the country. Putting together a revised, smaller budget—as required for a new IMF program—will be politically painful for the Aquino government. Manila may be forced to renege on promises to lower fuel taxes and not to raise income taxes. Budgetary troubles also may cancel Aquino's plans for new programs for health and agricultural development and will make it difficult to raise spending on rural roads and railways. Because the Aquino government will be reluctant to trim nonmilitary spending, it probably will make further cuts in defense outlays. Manila almost certainly will have little money for an expensive amnesty program for Communist insurgents, which was to include land distribution, employment, and food. [redacted] 25X1

25X1

Malaysia's Deteriorating Economy

Malaysia's current account deficit improved in 1985, but largely as a result of lower imports that accompanied slow economic growth. Real economic growth dropped to only 2.8 percent in 1985 from 7.6 percent in 1984, according to Central Bank statistics released in April. Kuala Lumpur's economic prospects are likely to deteriorate further this year. Sharply lower commodity prices and depressed demand for semiconductors and electrical appliances suggest that real growth this year will fall short of the Central Bank's prediction of 3.3 percent. Such continued weakness would probably force the government to stimulate the economy to contain rising unemployment as it moves toward national elections, which might be called as early as this summer. [redacted] 25X1

Communist

Sino-Soviet S&T Cooperation Off to Slow Start

According to a Soviet official, the Chinese have ignored Soviet overtures to expand S&T cooperation under the Sino-Soviet S&T agreement signed in March. The official told US Embassy officers recently that the Soviets want to pursue cooperation in space sciences, earthquake prediction, and water resources, but that his counterpart appears uninterested. The Soviet officer tasked with administering Sino-Soviet S&T cooperation also complained that Beijing is not cooperating with his efforts to acquire additional housing and office space. These complaints seem to confirm a February remark by a ranking Chinese S&T official that Sino-Soviet S&T cooperation would not grow for at least the next year. The slow pace probably reflects the cautious development of all Sino-Soviet ties as well as inherent delays in cumbersome bureaucracies. There is some movement, however. The officer revealed that a delegation from the Soviet Academy of Sciences is likely to sign a cooperation agreement with the Chinese Academy of Sciences during a visit later this month. China also agreed to send a delegation to visit Soviet nuclear power plants, although the Chernobyl' disaster may delay the visit. 25X1

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Directorate of
Intelligence

Economic & Energy Indicators

9 May 1986

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Economic & Energy Indicators

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Industrial Production

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985		1986		
					Year	4th Qtr	Jan	Feb	Mar
United States	2.6	−7.2	5.9	11.6	2.3	1.9	1.9	−8.2	−5.6
Japan	1.0	0.4	3.5	11.1	4.7	−2.9	−6.7	1.0	−6.7
West Germany	−2.3	−3.2	0.3	2.4	5.0	0.8	23.4	−3.4	
France	−2.6	−1.5	1.1	2.5	0.4	0	−8.7	19.9	
United Kingdom	−3.9	2.1	3.9	1.3	4.6	0.7	8.1	21.9	
Italy	−1.6	−3.1	−3.2	3.3	1.2	−1.8	36.7	23.1	
Canada	0.5	−10.0	5.3	8.8	4.4	6.1	−0.8	8.2	

Gross National Product [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985				1986
					Year	2d Qtr	3d Qtr	4th Qtr	1st Qtr
United States	2.5	−2.1	3.5	6.5	2.2	1.1	3.0	0.7	3.2
Japan	4.1	3.1	3.3	5.0	4.6	5.8	3.0	7.2	
West Germany	−0.2	−1.0	1.5	3.0	2.4	6.8	6.8	−0.2	
France	0.2	1.8	0.7	1.5	1.3	3.1	3.7	2.1	
United Kingdom	−1.4	1.9	3.3	2.6	3.3	6.4	−0.7	2.2	
Italy	0.2	−0.5	−0.4	2.6		4.8	−0.5		
Canada	3.3	−4.4	3.3	5.0	4.5	3.2	7.0	5.4	

[a] Constant market prices.

Consumer Prices

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985		1986		
					Year	4th Qtr	1st Qtr	Mar	Apr
United States	10.3	6.2	3.2	4.3	1.4	4.3	1.4	−5.0	
Japan	4.9	2.6	1.8	2.3	2.0	2.1	0.0	−6.2	1.1
West Germany	6.0	5.3	3.3	2.4	2.2	1.0	−0.9	−2.1	−0.9
France	13.3	12.0	9.5	7.7	5.8	3.2	0.7	0.9	
United Kingdom	11.9	8.6	4.6	5.0	6.1	3.2	4.8	1.4	
Italy	19.3	16.4	14.9	10.6	8.6	6.9	6.2	5.3	3.3
Canada	12.5	10.8	5.8	4.3	4.0	4.3	5.0	3.0	

Money Supply, M-1 [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985		1986		
					Year	4th Qtr	1st Qtr	Mar	Apr
United States [b]	7.1	6.6	11.2	7.0	9.1	11.1	7.9	15.0	
Japan	3.7	7.1	3.7	2.8	5.0	4.3			
West Germany	1.1	3.6	10.2	3.3	4.4	15.5	9.7	43.3	
France	12.2	13.9	10.0	7.8					
United Kingdom	NA	NA	13.0	14.7	16.7	25.1	9.0	34.6	
Italy	11.2	11.6	15.1	12.3					
Canada	3.8	0.7	10.2	3.3	4.1	14.0	–3.2	2.3	–8.3

[a] Based on amounts in national currency units.
[b] Including M1-A and M1-B.

Unemployment Rate [a]

Percent seasonally adjusted

	1981	1982	1983	1984	1985		1986		
					Year	4th Qtr	1st Qtr	Mar	Apr
United States	7.5	9.6	9.4	7.4	7.1	6.9	7.0	7.1	7.0
Japan	2.2	2.4	2.7	2.7	2.6	2.8	2.6	2.7	
West Germany	5.6	7.7	9.2	9.1	9.3	9.1	9.1	9.2	
France	7.6	8.4	8.6	9.6	9.9	9.7	10.3	10.5	10.5
United Kingdom	10.0	11.6	12.4	12.6	12.9	13.0	13.0	13.1	
Italy	8.4	9.1	9.9	10.4	10.7	11.0	11.5		
Canada	7.5	11.1	11.9	11.3	10.5	10.2	9.7	9.6	

[a] Unemployment rates for France are estimated.

Foreign Trade [a]

Billion US $, f.o.b.

	1981	1982	1983	1984	1985			1986		
					Year	3d Qtr	4th Qtr	Jan	Feb	Mar
United States [b]										
Exports	233.5	212.3	200.7	217.6	213.3	52.6	52.4			
Imports	261.0	244.0	258.3	326.2	345.9	85.5	91.7	30.9	31.0	31.0
Balance	–27.5	–31.6	–57.6	–108.5	–132.6	–32.9	–39.3			
Japan										
Exports	149.6	138.2	145.4	168.1	173.9	43.6	47.3	16.3	15.9	15.6
Imports	129.5	119.6	114.1	124.1	118.0	29.3	30.3	10.4	10.5	9.3
Balance	20.1	18.6	31.4	44.0	55.9	14.3	16.9	5.9	5.4	6.4
West Germany										
Exports	175.4	176.4	169.5	171.8	184.3	48.7	51.3	18.7	18.7	17.5
Imports [c]	163.4	155.3	152.9	153.1	159.0	41.8	43.9	15.2	15.4	14.3
Balance	11.9	21.1	16.6	18.8	25.3	6.9	7.4	3.6	3.3	3.2
France										
Exports	106.3	96.4	95.1	97.5	101.9	26.2	28.8	10.2	10.3	9.9
Imports	115.6	110.5	101.0	100.3	104.5	27.0	29.2	9.7	10.3	10.2
Balance	–9.3	–14.0	–5.9	–2.8	–2.6	–0.8	–0.4	0.5	0	–0.4
United Kingdom										
Exports	102.5	97.1	92.1	93.6	100.9	25.8	27.3	8.9	8.8	8.4
Imports	94.6	93.1	93.7	99.3	103.5	26.4	27.6	8.7	9.3	10.1
Balance	7.9	4.0	–1.6	–5.7	–2.5	–0.6	–0.3	0.2	–0.5	–1.7
Italy										
Exports	75.4	73.9	72.8	73.5	78.8	20.3	22.5	7.2	8.5	7.7
Imports	91.2	86.7	80.6	84.4	90.7	21.4	26.0	8.8	9.3	8.7
Balance	–15.9	–12.8	–7.8	–10.9	–11.9	–1.0	–3.4	–1.6	–0.7	–1.0
Canada										
Exports	70.5	68.5	73.7	86.5	88.0	21.8	22.5	7.7	7.2	
Imports	64.4	54.1	59.3	70.6	75.7	19.6	19.6	7.0	7.0	
Balance	6.1	14.4	14.4	15.9	12.3	2.2	2.9	0.7	0.1	

[a] Seasonally adjusted.
[b] Imports are customs values.
[c] Imports are c.i.f.

Current Account Balance [a]

Billion US $

	1981	1982	1983	1984	1985			1986		
					Year	3d Qtr	4th Qtr	Jan	Feb	Mar
United States	6.3	–8.1	–46.0	–107.4	–117.7	–29.3	–36.6			
Japan	4.8	6.9	20.8	35.0	49.2	13.1	16.0	1.9	3.9	6.9
West Germany	–6.8	3.3	4.3	6.7	13.8	2.0	7.4	1.9	3.0	2.1
France	–4.7	–12.1	–4.9	–0.8	0.6	0	0.8			
United Kingdom	15.3	8.5	4.5	1.3	4.0	1.5	1.3	1.6	0.4	–0.8
Italy	–8.6	–5.7	0.6	–3.2						
Canada	–5.0	2.1	1.4	1.9	–1.9	–1.1	–0.9			

[a] Seasonally adjusted; converted to US dollars at current market rates of exchange.

Export Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985		1986		
					Year	4th Qtr	Jan	Feb	Mar
United States	9.2	1.5	1.0	1.4	–0.6	–2.0	0.3	–11.0	
Japan	5.5	–6.4	–2.4	0.2	–0.6	38.6	24.2	111.0	
West Germany	–14.9	–2.8	–3.2	–7.1	0	44.6	31.9	60.6	32.7
France	–12.0	–5.5	–4.8	–2.9	2.5	30.8			
United Kingdom	NA	NA	–6.2	–5.1	2.3	13.8	–11.3	–16.0	26.4
Italy	–7.8	–3.0	–4.4	–5.2	–0.3	34.8			
Canada	3.9	–2.0	0.2	–0.4	–3.5	–6.0	–30.7	12.1	

Import Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985		1986		
					Year	4th Qtr	Jan	Feb	Mar
United States	5.3	–2.0	–3.7	1.7	–2.4	2.9	–5.0	–13.4	
Japan	3.6	–7.4	–5.0	–2.8	–4.3	3.2	16.5	46.8	
West Germany	–8.6	–4.7	–5.2	–4.8	–1.5	26.9	–0.9	15.2	–6.9
France	–7.8	–7.2	–7.0	–3.8	–0.3	38.4			
United Kingdom	NA	NA	–5.7	–4.5	0.5	8.3	–13.6	–2.0	26.2
Italy	1.0	–5.3	–6.6	–3.7	–1.0	24.2			
Canada	8.7	–1.1	0.6	1.0	–2.1	1.6	4.0	5.4	

Exchange Rate Trends

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985	1986			
					Year	Jan	Feb	Mar	Apr
Trade-Weighted									
United States	10.5	10.6	5.8	9.1	6.3	−16.0	−31.8		
Japan	9.3	−5.7	10.4	6.2	6.8	−5.0	106.4		
West Germany	−2.1	7.0	5.8	1.0	1.7	6.5	9.3		
France	−5.1	−6.1	−4.7	−2.1	2.7	4.1	8.0		
United Kingdom	2.5	−2.1	−5.0	−2.5	2.0	−39.5	−36.3		
Italy	−9.2	−5.1	−1.6	−3.1	−3.8	6.3	8.6		
Canada	0.3	0.2	2.3	−2.3	−3.6	−14.7	−8.7		
Dollar Cost of Foreign Currency									
Japan	2.7	−12.9	4.6	0	−0.3	14.1	61.4	33.4	17.9
West Germany	−24.6	−7.2	−5.2	−11.5	−3.3	27.4	41.0	26.1	−2.7
France	−28.7	−20.8	−15.9	−14.7	−2.7	26.3	41.0	23.7	−47.2
United Kingdom	−13.2	−13.4	−13.3	−11.9	−3.0	−12.8	−0.3	40.3	22.4
Italy	−32.8	−18.8	−12.3	−15.6	−8.6	9.6	40.9	26.2	−11.3
Canada	−2.5	−2.9	0.1	−5.1	−5.4	−8.8	1.1	4.1	12.7

Money Market Rates

Percent

	1981	1982	1983	1984	1985		1986		
					Year	4th Qtr	Jan	Feb	Mar
United States 90-day certificates of deposit, secondary market	16.24	12.49	9.23	10.56	8.16	7.93	7.95	NA	
Japan loans and discounts (2 months)	7.79	7.23	NA	6.66	6.52	6.48	6.46	6.42	6.27
West Germany interbank loans (3 months)	12.19	8.82	5.78	5.96	5.40	4.81	4.63	NA	
France interbank money market (3 months)	15.47	14.68	12.51	11.74	9.97	9.10	9.65	NA	
United Kingdom sterling interbank loans (3 months)	13.85	12.24	10.12	9.91	12.21	11.60	12.05	NA	
Italy Milan interbank loans (3 months)	20.13	20.15	18.16	15.91	14.95	14.52	14.79	NA	
Canada finance paper (3 months)	18.46	14.48	9.53	11.30	9.71	9.10	NA	NA	
Eurodollars 3-month deposits	16.87	13.25	9.69	10.86	8.41	8.15	8.19	NA	

Agricultural Prices

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Feb	Mar	Apr
Bananas Fresh imported, (Total world, $ per metric ton)	214.0	217.0	232.0	243.0	110.3	NA	109.3	NA	NA
Beef (¢ per pound)									
Australia (Boneless beef, f.o.b. US Ports)	112.4	107.4	111.1	101.0	96.6	97.6	97.7	96.6	94.0
United States (Wholesale steer beef, midwest markets)	100.0	101.4	97.6	100.9	90.7	87.8	87.0	84.2	82.0
Cocoa (¢ per pound)	89.8	74.3	92.1	106.2	98.7	95.7	95.5	91.0	90.0
Coffee ($ per pound)	1.28	1.40	1.32	1.44	1.43	2.01	1.95	2.04	1.92
Corn (US #3 yellow, c.i.f. Rotterdam, $ per metric ton)	150	123	148	150	125	116	115	113	111
Cotton (World Cotton Prices, "A" index, c.i.f. Osaka, US ¢/lb.)	72.69	74.48	85.71	63.91	57.87	53.60	54.66	54.00	NA
Palm Oil (United Kingdom 5% bulk, c.i.f., $ per metric ton)	571	445	502	730	501	289	283	243	240
Rice ($ per metric ton)									
US (No. 2, milled, 4% c.i.f. Rotterdam)	632	481	514	514	484	453	455	455	455
Thai SWR (100% grade B c.i.f. Rotterdam)	573	362	339	310	249	236	237	232	232
Soybeans (US #2 yellow, c.i.f. Rotterdam, $ per metric ton)	288	244	282	283	225	218	217	218	215
Soybean Oil (Dutch, f.o.b. ex-mill, $ per metric ton)	507	447	527	727	571	405	395	362	350
Soybean Meal (US, c.i.f. Rotterdam $ per metric ton)	252	219	238	197	157	188	186	193	190
Sugar (World raw cane, f.o.b. Caribbean Ports, spot prices ¢ per pound)	22.52	8.42	8.53	5.18	4.04	5.83	5.55	7.07	8.37
Tea Average Auction (London) (¢ per pound)	91.0	89.9	105.2	156.6	90.0	86.4	85.7	91.5	NA
Wheat (US #2. DNS c.i.f. Rotterdam, $ per metric ton)	210	187	183	182	169	172	175	166	164
Food Index [a] (1980=100)	88	78	86	92	81	95	93	97	96

[a] The food index is compiled by *The Economist* for 14 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

Industrial Materials Prices

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Feb	Mar	Apr
Aluminum (¢ per pound)									
Major US producer	77.3	76.0	77.7	81.0	81.0	81.0	81.0	81.0	81.0
LME cash	57.4	44.9	65.1	56.8	47.2	51.4	50.6	53.1	52.0
Chrome Ore (South Africa chemical grade, $ per metric ton)	53.0	50.9	50.0	50.0	43.9	40.0	40.0	40.0	40.0
Copper [a] (bar, ¢ per pound)	79.0	67.1	72.0	64.2	64.5	64.5	63.8	65.6	62.5
Gold ($ per troy ounce)	460.0	375.5	424.4	360.0	317.2	342.6	338.9	345.7	346.2
Lead [a] (¢ per pound)	32.9	24.7	19.3	20.0	17.7	16.7	16.7	16.6	16.5
Manganese Ore (48% Mn, $ per long ton)	82.1	79.9	73.3	69.8	68.4	67.2	67.2	67.2	67.2
Nickel ($ per pound)									
Cathode major producer	3.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
LME Cash	2.7	2.2	2.1	2.2	2.2	1.8	1.8	1.9	1.8
Platinum ($ per troy ounce)									
Major producer	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0
Metals week, New York dealers' price	446.0	326.7	422.6	358.2	291.0	383.1	373.8	413.0	408.5
Rubber (¢ per pound)									
Synthetic [b]	47.5	45.7	44.0	44.4	44.1	NA	42.8	NA	NA
Natural [c]	56.8	45.4	56.2	49.6	42.0	41.7	42.5	42.0	42.0
Silver ($ per troy ounce)	10.5	7.9	11.4	8.1	6.1	5.9	5.9	5.7	5.5
Steel Scrap [d] ($ per long ton)	92.0	63.1	73.2	86.4	74.4	NA	75.0	NA	
Tin [a] (¢ per pound)	641.4	581.6	590.9	556.6	543.2	357.4	385.6	329.2	325.3
Tungsten Ore (contained metal, $ per metric ton)	18,097	13,426	10,177	10,243	10,656	8,673	8,745	8,687	8,554
US Steel (finished steel, composite, $ per long ton)	543.5	567.3	590.2	611.6	617.8	NA	551.2	NA	NA
Zinc [a] (¢ per pound)	38.4	33.7	34.7	41.5	35.4	28.5	27.6	28.4	27.3
Lumber Index [e] (1980=100)	95	84	114	105	103	NA	104	NA	NA
Industrial Materials Index [f] (1980=100)	85	71	82	76	69	68	68	71	72

[a] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME. As of February 1986 tin prices from the Penang market.
[b] S-type styrene, US export price.
[c] Quoted on New York market.
[d] Average of No. 1 heavy melting steel scrap and No. 2 bundles delivered to consumers at Pittsburgh, Philadelphia, and Chicago.
[e] This index is compiled by using the average of 11 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.
[f] The industrial materials index is compiled by *The Economist* for 18 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

World Crude Oil Production
Excluding Natural Gas Liquids

Thousand b/d

	1981	1982	1983	1984	1985 [a]			1986 [a]	
					Year	3d Qtr	4th Qtr	Jan	Feb
World	**55,837**	**53,092**	**52,633**	**53,691**	**53,356**	**52,373**	**55,015**	**53,757**	
Non-Communist countries	**41,602**	**38,810**	**38,228**	**39,257**	**38,692**	**37,588**	**40,707**	**39,471**	**40,423**
Developed countries	12,886	13,276	13,864	14,302	14,730	14,643	14,958	15,083	15,070
United States	8,572	8,658	8,680	8,735	8,933	8,954	8,933	8,942	8,934
Canada	1,285	1,270	1,356	1,411	1,457	1,444	1,476	1,480	1,480
United Kingdom	1,811	2,094	2,299	2,535	2,533	2,399	2,607	2,734	2,699
Norway	501	518	614	700	785	823	870	839	870
Other	717	736	915	921	1,022	1,023	1,072	1,088	1,087
Non-OPEC LDCs	6,036	6,633	6,823	7,515	7,845	7,922	7,888	7,678	7,393
Mexico	2,321	2,746	2,666	2,746	2,733	2,738	2,721	2,510	2,400
Egypt	598	665	689	827	874	890	856	860	600
Other	3,117	3,222	3,468	3,942	4,238	4,294	4,311	4,308	4,393
OPEC	22,680	18,901	17,541	17,440	16,117	15,023	17,861	16,710	17,960
Algeria	803	701	699	638	645	616	660	650	550
Ecuador	211	211	236	253	280	282	287	300	220
Gabon	151	154	157	152	153	153	160	160	160
Indonesia	1,604	1,324	1,385	1,466	1,235	1,203	1,286	1,200	1,300
Iran	1,381	2,282	2,492	2,187	2,258	2,335	2,301	1,700	2,200
Iraq	993	972	922	1,203	1,437	1,482	1,666	1,680	1,880
Kuwait [b]	947	663	881	912	862	800	899	1,000	1,100
Libya	1,137	1,183	1,076	1,073	1,069	933	1,234	1,100	1,000
Neutral Zone [c]	370	317	390	410	355	306	391	300	300
Nigeria	1,445	1,298	1,241	1,393	1,464	1,214	1,686	1,300	1,400
Qatar	405	328	295	399	302	312	312	400	300
Saudi Arabia [b]	9,625	6,327	4,867	4,444	3,290	2,564	4,067	4,200	4,600
UAE	1,500	1,248	1,119	1,097	1,146	1,193	1,242	1,165	1,400
Venezuela	2,108	1,893	1,781	1,813	1,621	1,630	1,670	1,555	1,550
Communist countries	**14,235**	**14,282**	**14,405**	**14,434**	**14,664**	**14,785**	**14,308**	**14,286**	
USSR	11,800	11,830	11,864	11,728	11,749	11,866	11,367	11,350	
China	2,024	2,042	2,121	2,286	2,496	2,504	2,521	2,496	
Other	411	410	420	420	419	415	420	440	

[a] Preliminary.
[b] Excluding Neutral Zone production, which is shown separately.
[c] Production is shared equally between Saudi Arabia and Kuwait.

Big Seven: Inland Oil Consumption

Thousand b/d

	1981	1982	1983	1984	1985			1986		
					Year	3d Qtr	4th Qtr	Jan	Feb	Mar
United States [a]	16,058	15,296	15,184	15,708	15,697	15,557	15,748	15,923	16,773	16,457
Japan	4,444	4,204	4,193	4,349	4,124	3,839	4,376	4,661	5,046	
West Germany	2,120	2,024	2,009	2,012	2,077	2,258	2,018			
France	1,744	1,632	1,594	1,531	1,493	1,310	1,569	1,622	2,003	
United Kingdom	1,325	1,345	1,290	1,624	1,398	1,230	1,292			
Italy [b]	1,705	1,618	1,594	1,513	1,511	1,417	1,642	1,718		
Canada	1,617	1,454	1,354	1,348	1,350	1,366	1,419	1,359		

[a] Including bunkers, refinery fuel, and losses.
[b] Principal products only prior to 1981.

Big Seven: Crude Oil Imports

Thousand b/d

	1981	1982	1983	1984	1985				1986	
					Year	3d Qtr	4th Qtr	Dec	Jan	Feb
United States	4,406	3,488	3,329	3,402	3,216	3,171	3,662	3,640	3,329	2,993
Japan	3,919	3,657	3,567	3,664	3,377	3,003	3,619			
West Germany	1,591	1,451	1,307	1,335	1,284	1,248	1,210	1,150		
France	1,804	1,596	1,429	1,395	1,476	1,421	1,590	1,690	1,430	
United Kingdom	736	565	456	482		444				
Italy	1,816	1,710	1,532	1,507		1,166				
Canada	521	334	247	244	283	311	343	379		

Crude Oil Prices

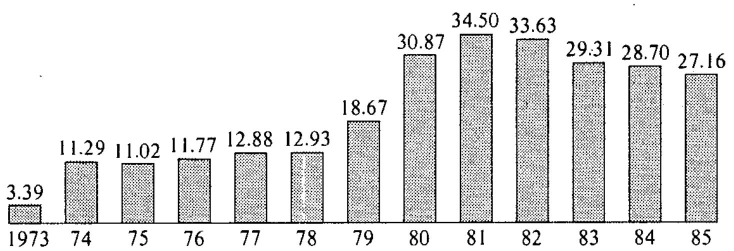
US $ per barrel

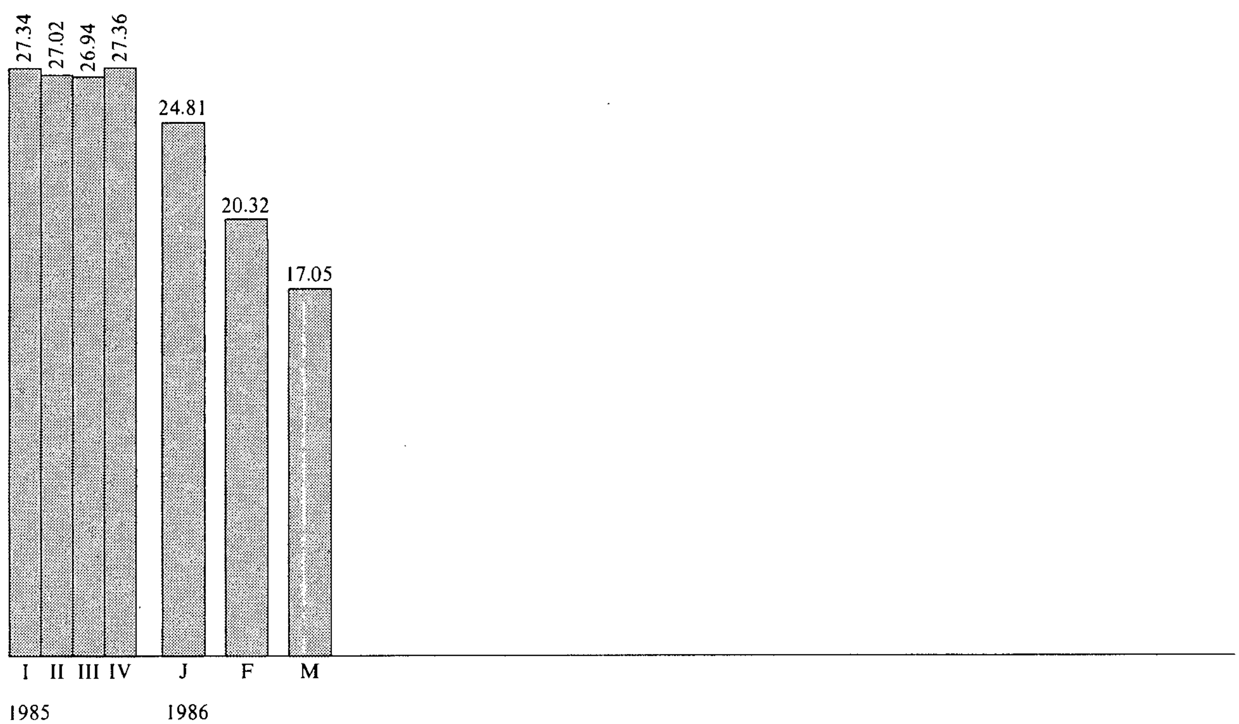
	1980	1981	1982	1983	1984	1985		1986		
						Year	4th Qtr	Jan	Feb	Mar
OPEC Average [a] (Official Sales Price)	30.87	34.50	33.63	29.31	28.70	28.14	28.15	28.11	28.08	28.09
World Average Price	NA	NA	NA	NA	NA	27.16	27.36	24.81	20.32	17.05

[a] F.o.b. prices set by the government for direct sales and, in most cases, for the producing company buy-back oil. Weighted by the volume of production.

Average Crude Oil Sales Price[a]

US $ per barrel





[a] The 1973 price is derived from posted prices, 1974-84 prices are derived from OPEC official sales prices, and beginning in 1985, prices are a measure of average world sales prices.

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